

12 March 2020

Ms Isabella Wong
Adviser, Listings Compliance
ASX Compliance Pty Ltd
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Email: Isabella.Wong@asx.com.au

Dear Ms Wong,

Collection House Limited (ASX Code: CLH) – Response to ASX Query Letter

I refer to your query letter dated 5 March 2020. Using the numbering in your letter, Collection House Limited (**CLH**) responds to your questions as follows:

Q1. Please provide a full account of the circumstances of Mr Rivas' resignation as CEO and Managing Director of CLH.

Mr Rivas resigned his employment on 24 November 2019 following discussions with the Board in relation to various CLH operational matters including his management of external relationships in relation to CLH's bankruptcy practices.

The Board and Mr Rivas reached agreement in relation to such resignation within the terms and conditions of his existing employment contract with CLH, and this was announced on MAP prior to market open on 25 November 2019.

Q2. Please provide a copy of Mr Rivas' letter of resignation (not for release to the market).

A copy of Mr Rivas' resignation letter is attached.

Q3. Please explain in detail:

- (a) the matters comprising the "recent industry changes and feedback from clients and external stakeholders regarding the need for all financial services companies to move towards a more customer-focused approach" referred to by CLH in the announcement at paragraph G above; and**
- (b) when CLH's senior management and board of directors became aware of the matters referred to in question 3(a).**

In answering these questions, please note that, consistent with the definition of "information" for the purpose of listing rule 3.1, ASX expects CLH to address its

officers' awareness of matters of supposition or that were insufficiently definite to warrant disclosure.

3(a) The "*recent industry changes and feedback from clients and external stakeholders regarding the need for all financial services companies to move towards a more customer-focused approach*" referred to by CLH in the announcement at paragraph G of ASX's letter dated 5 March 2020 have been referred to in previous announcements by CLH and in generally available publications regarding the Financial Services Royal Commission and the financial services sector generally.

The financial services and debt collection landscapes continue to develop and evolve. Publications that have contributed to the Board's assessment that financial services companies need to move towards a more customer-focused approach include:

- Reports of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in September 2018 and on 1 February 2019;
- Report from Financial Counselling Australia, the Consumer Action Centre and the Financial Rights Legal Centre, entitled 'Who is making Australians Bankrupt' dated July 2019;
- AFCA DataCube, an online tool published by the Australian Financial Complaints Authority (AFCA) on 7 November 2019 to compare financial firms responses and outcomes to consumer complaints;
- Australian Banking Association (ABA) 'Industry Guideline: Sale of unsecured debt' dated 19 November 2019, which commenced on 1 March 2020;
- new ABA Banking Code issued on 12 December 2019, which commenced on 1 March 2020;
- reporting in the Australian Financial Review and other news publications in the period from July 2019 to November 2019.

The Chairman's address to the 2019 AGM (released to the market on 1 November 2019) exemplifies the sorts of industry, client and external stakeholder considerations that may arise as the financial services industry considers moving towards a more customer-focused approach and how those considerations may have an influence on practices in the collections industry:

Governance and culture

"Like most of the financial services sector, our industry and that of our banking clients has come under intense scrutiny this year. You may have seen recent media coverage about bankruptcies and our subsidiary Lion Finance. We always value feedback, and although we were acting completely within the law in pursuing legal remedies for a small portion of our customer base, we have been evaluating our stance on how we seek recovery through the legal process."

"We have always held ourselves to a higher standard than required by the laws and regulations that govern our industry. Nevertheless, this year we have been reviewing our processes and procedures to ensure that they are both legally compliant, ethically

sound, and we've been listening to the feedback from wider stakeholder groups on what is best practice conduct for a business in our industry.

As a result, we have now increased the threshold at which we consider legal recovery by bankruptcy to \$20,000, compared with the regulatory limit of \$5,000. It is important to note that we only consider any kind of legal action as a last resort, when it has been proven through a comprehensive investigation process that a customer has the capacity to pay but has been unwilling to engage with us and agree an affordable repayment arrangement."

"Your Board is confident that the Company is well placed to grow in an operating environment that indicates stable volume of purchased debt, but perhaps against a backdrop of a slight lessening of competitive tension. Our major financial services clients continue to grapple with the ever-increasing regulatory and compliance obligations applicable to their sector."

CLH has been considering whether and how it might further respond to the continuing development and evolution of its operating environment and, as announced on 18 February 2020, is currently undertaking a comprehensive review of its operating model and collection strategies.

3(b) The "recent industry changes and feedback from clients and external stakeholders regarding the need for all financial services companies to move towards a more customer-focused approach" are matters applicable to the financial services industry as a whole and are evident from the publications mentioned above. CLH's senior management and board of directors have become aware of those publications as they have become generally available.

The particular strategies and actions that particular financial services companies may take to move towards a more customer-focussed approach and the flow-on effects for the collections industry and CLH remain developing and evolving matters.

As noted in the Chairman's address to the 2019 AGM, these are not matters of legal compliance - CLH has always operated as required by the laws and regulations that govern the industry. However, industry developments, including changes expected of us by the vendors of purchased debt ledgers ("PDL") and the wider community, extend beyond legal and regulatory compliance requirements and CLH aims to follow best practice.

In response to these industry developments, as announced on 18 February 2020, CLH's senior management and board of directors are currently undertaking a comprehensive review of CLH's operating model and collection strategies - some examples of the types of operational changes being considered were outlined on 1 November 2019 in the Chairman's address to the 2019 AGM.

Any material change in operating models or collection strategies is likely to have other consequences. For CLH, a number of related consequential matters are integrally involved in completing its review as outlined in the Company's 18 February announcement. For

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example, the effect of operational changes on the valuation of its PDL assets and potential impairment, the consequential effect for the finalisation of its half year financial accounts, and the consequential impact on covenants under its existing finance facilities.

The outcomes of that review are not yet known or resolved by the Board, and are therefore currently uncertain and incomplete. CLH is continuing to progress the matters outlined in its 18 February 2020 announcement. It is due to such uncertainty and incompleteness (including the consequential effects), and in order to manage its continuous disclosure obligations, that CLH sought the voluntary suspension.

- Q4. *Please confirm that CLH is complying with the listing rules, and in particular listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.***

CLH confirms that it is in compliance with the Listing Rules, in particular Listing Rule 3.1.

- Q5. *Please confirm that CLH's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CLH with delegated authority from the board to respond to ASX on disclosure matters.***

CLH confirms that the responses in this letter have been authorised and approved accordingly.

Yours faithfully

Collection House Limited



Doug McAlpine

Chief Executive Officer



5 March 2020

Reference: ODIN15144

Mr Doug McAlpine
Chief Executive Officer and Company Secretary
Collection House Limited
Level 12, 100 Skyring Terrace
Newstead QLD 4006

By email

Dear Mr McAlpine

Collection House Limited ('CLH'): query letter

ASX refers to the following matters:

- A. On 4 March 2019, CLH released an announcement on the ASX market announcements platform ('MAP') titled "CLH – CEO remuneration update" disclosing that the base salary of its then-chief executive officer ('CEO'), Anthony Rivas, had been increased to \$470,475 per annum, effective 1 September 2018. According to CLH's annual report for the year ended 30 June 2018, Mr Rivas received \$433,418 in salary and fees for the period in question.
- B. On 25 June 2019, CLH released an announcement on MAP titled "CEO & Managing Director Re-appointment" disclosing that Mr Rivas had been re-appointed as CEO and Managing Director of CLH for a term of three years commencing 1 July 2019.
- C. On 30 August 2019, CLH released its preliminary final report including its audited financial statements (the '**Appendix 4E**') for the financial year ended 30 June 2019 on MAP. The audited financial statements reported:
 - i. profit from continuing operations (after tax) of \$30,690,000, representing an increase of 17% on the previous financial year;
 - ii. a segment earnings before interest and tax result for the purchased debt ledger ('PDL') segment of \$52,090,000;
 - iii. a combined carrying value for current and non-current PDLs of \$410,303,000; and
 - iv. a segment result for collection services of \$9,264,000.
- D. The Independent Auditor's Report in the Appendix 4E identified the value of the PDL portfolio as the only key audit matter, noting the application of AASB 9 to this asset class, and observing:¹
 - i. At each reporting date, CLH recognises in profit or loss the estimated change in lifetime expected credit losses as an impairment gain or loss. An impairment gain is recognised when actual cash collections for the portfolio exceed those forecast. An impairment loss arises when there is a deficiency in cash collections, reflected in the credit-adjusted effective interest rate.
 - ii. The impairment model used by CLH to calculate the present value of PDLs relied on a number of judgements, including with respect to future collection estimates generated using a combination of both internal and external information.

¹ at pages 90-91.

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- iii. The auditor focused on challenging the “significant assumptions” used in determining the value of the PDLs, including those about which expected cash flows will be recovered from customers and the implicit credit-adjusted effective interest rate.
- E. On 1 November 2019, CLH released an announcement on MAP titled “Correction of error in CEO Presentation”, disclosing² the following cash collections³ by Lion Finance Pty Ltd, the entity responsible for the collection of CLH’s PDLs that CLH buys from Australian and New Zealand credit providers:
- i. Run Rate for FY20 (based on 1QFY20) = \$130 million.
- ii. FY20 Guidance = \$145-155 million.

This announcement also included the following statement⁴ regarding CLH’s FY19 performance:

“PDL purchases were \$132.6M up 64% on FY18 including the purchase of two smaller competitors ACM and RML (NZ). This sets us up for a significant increase in Cash Collection in the years ahead and by extension profit growth.”

- F. On 25 November 2019, CLH released an announcement on MAP disclosing that its then-CEO, Mr Rivas, had resigned effective 24 November 2019.
- G. On 18 February 2020, CLH requested that its securities be suspended from official quotation under listing rule 17.2, and released an announcement on MAP disclosing that the reason for the request was to assist CLH manage its continuous disclosure obligations. The announcement also included the following statements:

“The Company is currently undertaking a comprehensive review of its operating model and collection strategies. The review is in response to recent industry changes and feedback from clients and external stakeholders regarding the need for all financial services companies to move towards a more customer-focused approach, particularly in relation to the Company’s purchased debt ledger (“PDL”) operation, Lion Finance.

As a result of the above, the Company is reconsidering the assumptions that underly [sic] the level and timing of collection cashflows that are expected to be generated from its PDL assets. The Company has identified that adopting some of the operational changes currently under consideration, could result in a material adjustment to the carrying value of its PDL assets, as determined in accordance with AASB 9.

Current lending arrangements with the Company’s senior lenders require, among other things, that the Company maintains an agreed Loan to Valuation Ratio, and a Rolling Leverage Ratio (total finance debt for the CLH group as a ratio of consolidated EBITDA of the CLH group). If changes to the Company’s operational strategies affect the accounting value of its PDL assets by deferring or reducing collection cashflows, that is likely to have an adverse impact on the Company’s ability to meet the current terms and conditions of those lending arrangements. ...”

² on page 8 of the presentation.

³ These figure were qualified as “ex PEP”. CLH defines PEP as “Portfolio Enhancement Programme” which includes “CLH developed programmes such as call options, call and put options, and other strategies involving PDL account management” (see page 16 of the presentation). CLH has released market announcements relating to transactions wherein it receives a lump sum in return for the assignment of cashflow from a segment of its PDL portfolio as being “under the Portfolio Enhancement Programme” – see for instance the release titled “CLH Portfolio Enhancement Programme – 3rd Balbec Transaction” dated 1 November 2019.

⁴ on page 6 of the announcement.

Questions and requests for information

Having regard to the above, ASX asks CLH to respond separately to each of the following questions and requests for information:

1. Please provide a full account of the circumstances of Mr Rivas' resignation as CEO and Managing Director of CLH.
2. Please provide a copy of Mr Rivas' letter of resignation (not for release to the market).⁵
3. Please explain in detail:
 - a. the matters comprising the "recent industry changes and feedback from clients and external stakeholders regarding the need for all financial services companies to move towards a more customer-focused approach" referred to by CLH in the announcement at paragraph G above; and
 - b. when CLH's senior management and board of directors became aware of the matters referred to in question 3.a.

In answering these questions, please note that, consistent with the definition of "information" for the purpose of listing rule 3.1,⁶ ASX expects CLH to address its officers' awareness of matters of supposition or that were insufficiently definite to warrant disclosure.

4. Please confirm that CLH is complying with the listing rules, and in particular listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.
5. Please confirm that CLH's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of CLH with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **5:00 pm AEST on Wednesday, 12 March 2020**.

You should note that if the information requested by this letter is information required to be given to ASX under listing rule 3.1 and it does not fall within the exceptions mentioned in listing rule 3.1A, CLH's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph.

For the purpose of preparing its answers to the above questions concerning when it was aware of particular matters, ASX also directs CLH to the following definition in chapter 19 of the listing rules⁷:

"aware an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity."

ASX reserves the right to release a copy of this letter and your response on MAP under listing rule 18.7A.

Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to

⁵ The fact that ASX tells an entity that a document is not for release to the market does not prevent ASX from releasing any of the information contained in the document (as opposed to the document itself) to the market if ASX considers it necessary to inform the market.

⁶ Chapter 19 of the ASX listing rules.

⁷ Refer also to the commentary at section 4.4 in Guidance Note 8.

review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

Isabella Wong

Adviser, Listings Compliance (Sydney)